Czech National Bank
Financial Market Regulation Division

Prague, 24 January 2017

Contributions to the Deposit Insurance Fund of the Financial Market Guarantee System

Deposit insurance in the European Union and the determination of contributions to deposit guarantee schemes are governed by Directive 2014/49/EU (hereinafter referred to as "DGS II Directive") on deposit guarantee schemes, transposed into Czech law through an amendment of the Act on Banks and the Act on Credit Unions (Act No. 375/2015 Coll.) with effect from 1 January 2016.

On 22 September 2015, the European Banking Authority (EBA) issued **Guidelines on methods for calculating contributions to deposit guarantee schemes** (EBA/GL/2015/10, hereinafter referred to as the "EBA guidelines"). In accordance with Article 16(3) of Regulation No. 1093/2010, the Czech National Bank has confirmed that it will follow these guidelines.

A credit institution's contribution to the Deposit Insurance Fund (hereinafter referred to as the "DIF") is based on the amount of covered deposits held by the credit institution (as defined in Article 41ca(4) of the Act on Banks, hereinafter referred to as "covered deposits") and on its overall risk profile. Pursuant to DGS II Directive, risk-based contributions are collected at least annually until the minimum required amount of funds in the DIF, equivalent to 0.8% of covered deposits, is reached (this amount must be reached by 3 July 2024 at the latest[1]). According to Article 41ca(4) of the Act on Banks, contributions are prescribed even after the minimum amount of funds in the DIF is reached. In addition to regular contributions, extraordinary one-off contributions can be demanded from credit institutions where necessary.

The CNB will set the annual contribution for credit institutions by **31 May** (a non-zero contribution will be set for those credit institutions which held covered deposits in the previous calendar year). The contribution will be set in Czech koruna and rounded to the nearest whole number. The credit institution will pay the contribution to the Financial Market Guarantee System by **30 June** of the relevant year.

If the funds in the DIF have already reached the minimum required level equivalent to 0.8% of the amount of covered deposits of all credit institutions, the CNB will set the contributions in such a way that their total amount in the relevant year is equal to 0.045% of the amount of covered deposits of all credit institutions. If the funds in the DIF do not reach the minimum required amount, the CNB will set the contribution in such a way that the required amount of funds in the DIF is reached by 3 July 2024.

If the funds in the DIF are insufficient for the payment of compensation laid down by law, the CNB will prescribe **extraordinary contributions**.

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[1] According to paragraph 20 of the EBA guidelines, this period "may be extended by additional 4 years if there is cumulative disbursement exceeding 0.8% of covered deposits".

The amount of contributions to the DIF is set in the following way:[2]

1. The **annual target level (*ATL*)** of contributions is determined. It is calculated using the arithmetic average of the amounts of covered deposits at the ends of the four quarters of the calendar year preceding the year when the contributions are set.

   a) If the current amount of funds in the DIF is lower than 0.8% of the covered deposits of all credit institutions, the following formula is used:

   $$ATL = \frac{0.008 \cdot CD \cdot 1000 - ADGSF}{2024 - t + 1} \cdot mae \ ;$$

   where: *CD*   is the amount of covered deposits (in CZK thousands),
              ADGSF   is the current amount of funds in the DIF,
              t   is the calendar year for which the ATL is set,
              mae   is a coefficient factoring in the business cycle.[3]

   b) If the current amount of funds in the DIF is greater than or equal to 0.8% of the covered deposits of all credit institutions, the following formula is used:

   $$ATL = 0.00045 \cdot CD \cdot 1000 \ ,$$

   where: *CD*   is the amount of covered deposits (in CZK thousands),

   c) If the amount of funds in the DIF subsequently decreases below the level equivalent to 0.8% of the amount of covered deposits, the CNB sets the amount of contributions taking account of Article 41ca(5) of the Act on Banks:[4]
   i) the ATL is set similarly as in a), but with the denominator substituted by a number in the range of 1–5 (after an assessment of the current situation);
   ii) if the amount decreases by more than-one third of 0.8% of covered deposits, the ATL is set similarly as in (a), but with the denominator substituted by a number in the range of 1–6 (after an assessment of the current situation).

   d) Where an extraordinary contribution is prescribed, the ATL is set similarly as in (a), taking account of the amount of funds missing from the DIF and the current circumstances and in accordance with Article 41cc of the Act on Banks.[5]

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[2] In the case of extraordinary contributions, the risk weights set for the purposes of calculating the last regular contributions are used (points 3–6 are thus not relevant).

[3] For example, 0.750 = a decrease in ATL_{GL} of 25%, 1.250 = an increase of 25%. The value of the coefficient is set in the same way as when setting contributions to the Resolution Fund. It is calculated as the sum of the unadjusted value of ´*mae*´ (excluding the contribution of the cycle), which always equals 1, and the contributions of the business and financial cycles. The contribution of the business cycle is based on the average value of the output gap (OG) in the last four known quarters and the next four quarters according to the CNB forecast as published in the Inflation Report. OG is the average of the output gap values calculated using the Cobb-Douglas production function and the Kalman filter. The contribution of the financial cycle is based on the average value of the Financial Cycle Indicator (IFC) for the last four known quarters. The IFC value is published in the Financial Stability Report. The final value of the coefficient ´*mae*´ is rounded to three decimal places and is published by the CNB on its website.

[4] If the amount of funds in the DIF decreases below 0.8% of covered deposits, the CNB will set the annual contribution rate and the coefficient adjusting the total amount of annual contributions in such a way that the amount of funds in the DIF equivalent to 0.8% of covered deposits is reached within a reasonable period of time and within five years from the end of the calendar year in which the decrease occurred, depending on the amount of funds missing from the DIF. If the amount of funds in the DIF drops below two-thirds of 0.8% of covered deposits, the CNB will set the annual contribution rate and the coefficient adjusting the total amount of annual contributions in such a way that the amount of funds in the DIF equivalent to 0.8% of covered deposits is reached within six years from the end of the calendar year in which the decrease occurred.

2. The annual **contribution rate (CR)**, which determines the necessary contribution per unit of covered deposits, is calculated according to the formula:

$$CR = \frac{ATL}{CD \cdot 1000} \; ;$$

where: ATL is the annual target level of contributions,
        CD   is the amount of covered deposits (in CZK thousands),

The CR value is rounded to 5 decimal places and is published by the CNB on its website (expressed as a percentage, to 3 decimal places).

3. A set of **risk indicators** and their values are set for individual credit institutions. The risk indicators are listed in Annex 2 of the Official Information.[6]

4. **Individual risk scores (IRS)** are set for individual indicators in accordance with Annex 1 of the Official Information. For the purpose of further calculation, the final value is rounded to 2 decimal places.

5. **Aggregate risk scores (ARS)** are set for individual credit institutions in accordance with Annex 1 of the Official Information. For the purpose of further calculation, the final value is rounded to 2 decimal places.

6. The **aggregate risk weight (ARW)** of a credit institution is calculated in accordance with Annex 1 of the Official Information. The boundaries of the ARW are based on risk weights set in Regulation No. 575/2013 (CRR) of the European Parliament and of the Council for exposures to credit institutions with an external credit assessment, where the risk weights range between 20% and 150%. To determine extraordinary payments, the risk weights set for the purposes of calculating the last regular contributions are used. The ARW value calculated in % in accordance with the Official Information is rounded to 2 decimal places. For the purposes of further calculation, the ARW value, calculated this way, is converted from a percentage to a decimal number (not further rounded, i.e. a figure with four decimal places, e.g. 0.1234 for ARW = 12.34%, is used).

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[5] If less than five (six) years are left until 2024, the law also provides for the use of a lower number of years; if, by contrast, more than five (six) years are left, the collection of contributions prescribed by the law would be higher than that prescribed by EBA guidelines, which the guidelines allow for in paragraph 21: *"In any event, Directive 2014/49/EU does not prevent Member States from setting a higher target level or providing that a DGS may request member institutions to make ex-ante contributions even after the target level is reached in order to fulfil the objective mentioned in paragraph 17(c)".*
Cases of large payments are provided for in paragraph 20 of the EBA guidelines, which states: *"The build-up period for the target level envisaged in Article 10(2) of Directive 2014/49/EU will be no more than 10 years. **It may be extended by additional 4 years if there is cumulative disbursement exceeding 0.8% of covered deposits.** Within that time horizon, contributions should be spread out as evenly as possible over time until the target level is reached, but with due account of the phase of the business cycle and the pro-cyclical impact that contributions may have on the financial position of member institutions."*

[6] After consultation with the EBA, no leverage ratio calculated in accordance with Regulation No. 575/2013 is given. For the Czech Republic to avoid the risk of acting only in partial compliance with the EBA guidelines, a leverage ratio set in accordance with EBA guidelines as the ratio of Tier 1 capital to total assets is used. After leverage ratio data reported in accordance with Regulation No. 2015/62 amending Regulation No. 575/2013 become available, a figure calculated as the ratio of Tier 1 capital to the total exposure determined in accordance with this regulation will be used.

7. **Unadjusted risk-based contributions ($URBC_i$)** are calculated according to the formula:

$$URBC_i = CR \cdot ARW_i \cdot CD_i \cdot 1000 \;;$$

where: CR is the annual contribution rate (value expressed as a decimal number is used),
ARW_i is the aggregate risk weight of credit institution ´i´ (a decimal figure is used),
CD_i is the amount of covered deposits of credit institution i (in CZK thousands; in the case of extraordinary contributions, the same values as when setting ATL are used).

8. An **adjustment coefficient (μ),** which is identical for all credit institutions and increases or reduces the calculated amount of contributions from individual credit institutions so that the target level of contributions for the given year is reached, is calculated. Its value is published by the CNB on its website. It is calculated using the following formula:

$$\mu = \frac{ATL}{\sum URBC_i} \;;$$

where: ATL is the annual target level of contributions,
$URBC_i$ is the unadjusted annual risk-based contribution of credit institution ´i´.

The value of coefficient μ is rounded to five decimal places and is published by the CNB on its website (as a percentage, i.e. as a figure with three decimal places; for the purposes of further calculation, a figure expressed as a decimal number, i.e. with five decimal places, is used).

9. The **annual adjusted risk-based contribution** of a credit institution (C_i) is calculated according to the following formula:

$$C_i = URBC_i \cdot \mu \;;$$

where: $URBC_i$ is the unadjusted annual risk-based contribution of credit institution ´i´,
μ is the adjustment coefficient (value expressed as a decimal number is used).

Unless specified otherwise above, a figure rounded to the nearest whole koruna is used.
The CD value is set similarly as for the purposes of Annex 2 of the Official Information as the average of the values at the end of Q1, Q2, Q3 and Q4 of the previous year, to two decimal places.